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Federal Communications Commission
Office of the Secretary

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StateNets appreciates the opportunity to participate in the May 8, 2003 panel discussion sponsored by Commissioner Abernathy. Our member organizations serve the substantial portion of schools and libraries in our states and know well the E-rate challenges faced by service recipients and providers.

First, we commend the FCC for all the value and benefit the E-rate Program has brought to the schools and the libraries of Missouri and the other states that StateNets members' serve. Without this program, connectivity, access to valuable educational resources, and technical expertise would be far behind their current state.

Likewise we commend USAC and the SLD for their work in administering a complex program with great demand in a reasonable manner. We can appreciate the pressures under which George McDonald and his staff must operate on a daily basis. To the credit of George and his staff, they are willing listeners to suggestions from the applicant community. We appreciate the time George has spent developing a strong working relationship with state E-rate coordinators, regardless of whether they belong to CCSSO, ALA or other groups.

As noted above, the E-rate Program is complex. We believe the very complexity of the program gives rise to the conditions that enable waste, fraud, and abuse to occur. We believe there to be little actual fraud in the program, but that waste and abuse are a problem of unknown size. Regardless, the potential exists because the program is so complex. There are few programs so complex that applicants either frequently turn to outside help to complete their applications or simply give up because it is "too hard."

The practical result is that marginally knowledgeable consultants are advising marginally knowledgeable applicants on program rules and eligibility to obtain services from marginally knowledgeable service providers. How does this affect waste, fraud, and abuse? When rules are complex, unscrupulous people will take advantage of the ignorance of others while others commit errors trying to maximize benefit to their organization. The biggest single deterrent to waste, fraud, and abuse is an easy to understand and administer program.

In addition to the primary goal of simplifying the E-rate program, we propose several ideas that will cause a substantive shift in administration and program policy:

1. We believe there are several related changes that should be implemented by the SLD to ease the administrative burden on both the applicant and the SLD.
 - a. Streamline and expedite the review process by having a focused team perform state network and other large/complex reviews rather than spreading them throughout the geographic oriented teams. Large applications have a unique complexity, but most are similar in many respects. In addition, state networks in particular are subject to much more stringent controls by state agencies and state legislatures than required by the program rules. There should be some

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windows – one for Priority 1 services and one for Priority 2 services. The current practice of the SLD is to hold funding commitments for Priority 2 services until the volume of Priority 1 services is known. This suggestion would codify what appears to be a two step approach. If PIA staff also answered TCSB call and assisted the applicant community in answering questions before applications were submitted, we are confident that competent and knowledgeable personnel could be retained.

5. Many small applicants are intimidated by the complexity of the program and by the application review process imposed on them. One common denominator for all applicants of the program is POTS (local and long distance, including basic cell phone) services. Since the services in this category are the most homogeneous in the E-rate Program, we believe there should be a highly streamlined process to obtain discounts for POTS services. We believe this proposal will greatly simplify administrative processes, ensure participation of every school and library in the E-rate program, provide for fair and equitable treatment for all POTS services applicants, and streamline the filing process. We see two options:
 - a. Proposed Solution - Option 1: Applications for POTS services that do not require Tech Plans should be handled by the provider community directly to USAC. Applicants would be required to certify their discount percentage to the provider. The provider would then apply to USAC for recovery of the undiscounted portion. Maximum funding would be limited to the previous year plus 5% to accommodate increased use, price increases, etc. The applicant would complete no SLD forms, although providers may provide a form to capture data for their records. Applicants requesting service that requires a Tech Plan or who have justification for greater than the maximum 5% increase ceiling would follow the current E-rate application process.
 - b. Proposed Solution - Option 2: All applicants would be eligible for a flat 50% discount for POTS services. No FRDL data would need to be passed between applicants, providers, and USAC. If an applicant has a greater E-rate discount level, they would be free to follow the current process to secure E-rate discounts for POTS services at their discount level. Anecdotal information indicates a great many 70% and 80% applicants would accept this option simply to avoid what they consider an overly complex process.

Although the following items do not directly impact state education networks, we believe they will reduce the opportunity for waste, fraud, and abuse and benefit the program.

6. Priority 2 service (Internal Connections) is the area most susceptible to waste, fraud, and abuse. The eligible services in this area have the greatest "gray areas" and conditional designations and the local match is so low that it invites unscrupulous vendors to target 90% applicants with their schemes. We recommend adjusting the discount matrix so that the maximum discount level for Internal Connections is less than 90 percent. A possible objection is that the poorest schools would suffer. We do not believe this to be a valid argument. The application process is by school building, but the bills are paid by the school district. A school district may receive less funding for its 90% school buildings, but there should then be sufficient funds available to begin meeting the needs of the 80% and below school buildings. Overall, we believe the potential for adverse impact to be relatively small. We recommend the FCC should initiate an NPRM to determine the most appropriate maximum discount level for Internal Connections.

7. Internal connections applications should only be accepted every second year for Internal Connections to each site. This proposal will reduce the opportunity for waste, fraud, and abuse. More importantly, it will help level the playing field by providing a greater opportunity for less than 90% school districts to obtain funding. Maintenance services and extended warranties would be exempted as they are normally billed on an annual basis. We suggest the FCC fund these services for two years to reduce the administrative burden on both applicant and SLD. Applicants should not suffer an adverse impact; however, it will require their planning and budgeting to be thorough. When coupled with item 6 above, we believe this option maintains support for Internal Connections services, while reducing the opportunity for waste, fraud, and abuse.
8. Strengthen the definition of maintenance to preclude funding for ineligible help desk and on-site maintenance staff. Currently these service definitions are overly broad and vague which invites opportunities for waste, fraud, and abuse. We propose that the definition of maintenance be restrictively defined as manufacturer's warranty or original manufacturer equipment maintenance contract. Third party equivalents would be permitted, but limited, based on manufacturers' warranty/extended maintenance cost. Contracts including personal services would be prohibited. Two year warranties would be eligible as part of the acquisition price if item 7 above were implemented. This proposal addresses waste, fraud, and abuse by limiting its potential.

We view many of the above suggestions as temporary measures. The E-rate program should be simple enough to understand and administer that applicants will not need to resort to hiring consultants to complete their applications. Many suggestions noted above address program improvements that ease the administrative burden without sacrificing quality of review and oversight. The examination of waste in the program should not be limited to waste in program funding commitments, but should also examine the waste of time and resources at the local level to comply with overly complex rules and procedures. We also applaud SLD's implementation of a waste fraud, and abuse task force to address these issues.

Sound application of the principals of root cause analysis should guide the Commissions' decision making, including contracting for this expertise if it does not reside within the Commission staff. We also recommend the Commission permit the flexibility to spend program resources to make substantive improvements. The FCC and SLD should look to the total cost of ownership of the program and its components when making changes to processes and automated support systems.

Changes to any program will create some winners and some losers. It will be tempting to treat symptoms and follow political expediency when bold steps are required to ensure the E-rate program a shining example of a well balanced, fiscally responsible, and beneficial program. We strongly encourage the Commission to take bold steps.

We again thank the Commission for the opportunity to participate on this panel and listen to recommendations that, if adopted, will move the program forward in an effective and efficient manner.

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